

Real Estate Asset Class Review

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The Townsend Group

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Real Estate Market Overview & Outlook

- Global economies are improving at a measured pace and the risk of a “double dip” is easing.
- Despite past underperformance, real estate investments as a whole performed well compared to competing sectors in 2010.
 - Year-to-date, through June 30, the NCREIF Property Index (US) reported a **+4.1%** total return, IPD Monthly (UK) **+9.6%**, PCA/IPD (Australia) **+5.7%** and EPRA/NAREIT Global (Global Public Securities) **-4.2%**.
 - FTSE 100 reported a **-9.2%**, S&P 500 reported a **-7.6%** return and Nasdaq reported a **-6.5%** return over the same time frame.
- Transaction volume is increasing globally, albeit at a slow pace. A “flight to quality” is reflected in higher pricing and strong capital flows to Core assets in major metropolitan markets.
- General consensus shows that values across style sectors bottomed, with managers taking the majority of write-down’s or write-off’s in 2008 and 2009.
- To date, investment managers have been successful in achieving loan extensions. The bulk of loan maturities expected in 2010 has now shifted to 2013 and 2014.
- Spreads to local debt relative to long term appears favorable in some markets, which partially mitigates the impact of potentially higher interest rates in the future.

Real Estate Program Overview

- Real Estate represents 6% of the ASRS Strategic Asset Allocation Policy, +/-2%.
- Real Estate has an inception date of 10/1/2005.
- ASRS Real Estate investments include Public & Private investments, Core & Non-Core strategies and US and Non-US exposure.
- ASRS Program Objectives:
 - Achieve attractive risk-adjusted returns.
 - Enhance the overall diversification of the ASRS investment program.
- Return Expectation:
 - Core Private: Gross NPI – 75 bps
 - Core Public: Custom REIT Benchmark¹
 - Value-Added: Gross NPI + 25 bps
 - Opportunistic: Gross NPI +225 bps
 - Total Portfolio: Constant 9% Net and Gross NPI + 100 bps

¹Custom REIT Benchmark is a MSCI REIT Index through 8/31/2007 and FTSE EPRA/NAREIT Global REIT Index from 9/30/2007 to present.

Real Estate Portfolio Overview - Strategic Plan Compliance

- The current Portfolio is in compliance with all investment constraints set forth in the Strategic Plan through June 30, 2010.

Constraint	Strategic Allowance	ASRS Exposure	In Compliance
Investment Type Constraints¹			
Core Public Securities	Maximum 30%	7.6%	Yes
Total Core Portfolio	Minimum 20%	24.7%	Yes
Total Non-Core Portfolio	Maximum 80%	75.3%	Yes
Global Investment Constraints ²			
Non-US Exposure	Maximum 30%	29.2%	Yes
Leverage ²			
Total Core Private Portfolio Leverage (LTV)	Maximum 30%	25.2%	Yes
Total Portfolio Leverage (LTV)	Maximum 65%	63.8%	Yes
Manager Concentration Limits ¹			
ASRS % Interest in Fund	Maximum 20%	N/A	Yes
Vehicle/Single Manager Exposure	Maximum 30%	N/A	Yes

¹ Constraint tied to Expected Exposure, which equals ASRS 6/30/2010 market values + unfunded commitments

² Constraint tied to Actual Exposure, which represents ASRS' Funded status as of 6/30/2010

Real Estate Performance Analysis -Total Portfolio (Including ASRS Owned Assets)

- Net performance of the ASRS Total Portfolio is measured against the NCREIF Property Index (“NPI”) plus 100 basis points.
- Performance shows improvement which continues to manifest itself in Third Quarter.

	1 Year		3 Year		Inception ¹	
	Gross	Net	Gross	Net	Gross	Net
Core	16.3%	15.5%	-11.9%	-12.5%	-1.9%	-2.8%
Non-Core	2.0%	-0.8%	-12.8%	-15.9%	-3.4%	-9.0%
Total ASRS	3.1%	1.0%	-13.7%	-15.7%	-1.7%	-4.3%
NPI + 100bp	-.5%	NA	-3.8%	NA	4.8%	NA

¹The inception date for each portfolio is the third quarter of 2005.

Real Estate Portfolio Overview – Commingled Funds and Reit Investments as of 6/30/2010¹

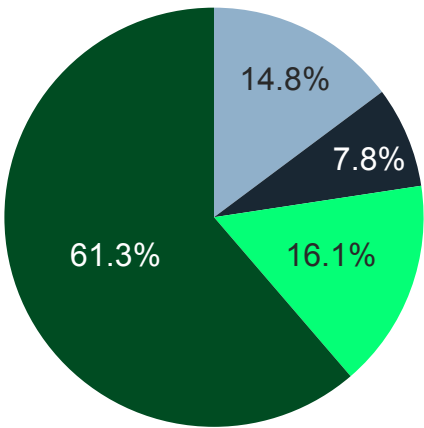
Funding Status

Total Plan Assets	\$23,243	
Target Allocation	\$ 1,395	6.0%
Total Commitments	\$ 1,628	7.0%
Total Contributions	\$ 1,312	5.6%
Total Distributions	\$ 268	1.2%
Total Unfunded	\$ 543	2.4%
Total Fair Market Value	\$ 820	3.5%

Performance Summary

Gain/Loss on Total Contributions:	- 225
Equity Multiple on Total Contributions:	0.83x
ASRS Portfolio Net IRR:	-10.4%
Net Time Weighted Return:	-5.4%

Composition by Style
(% of Total Commitments)

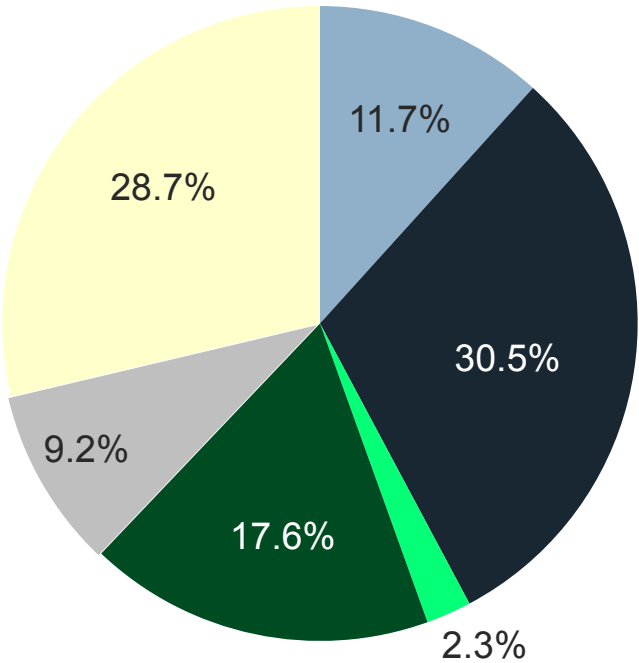


Core Private Core Public
Value Added Opportunistic

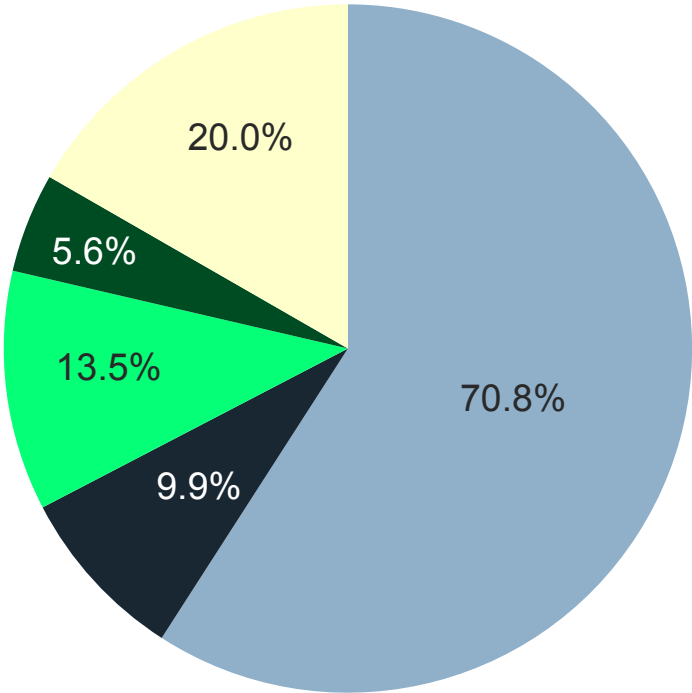
¹Dollars in millions; Performance Since Inception

Real Estate Portfolio Overview – Diversification¹

Composition by Property Type
(% of Total Commitments)



Composition by Geographic Region
(% of Total Commitments)



■ Apartment ■ Office ■ Industrial ■ Retail ■ Hotel ■ Other ■ US ■ Europe ■ Americas ex. US ■ Asia Pacific ■ Other

¹ Based on reported values through 6/30/2010. "Other" Property Type includes Debt, Healthcare, Land, Leisure, Self-Storage and Senior Housing.

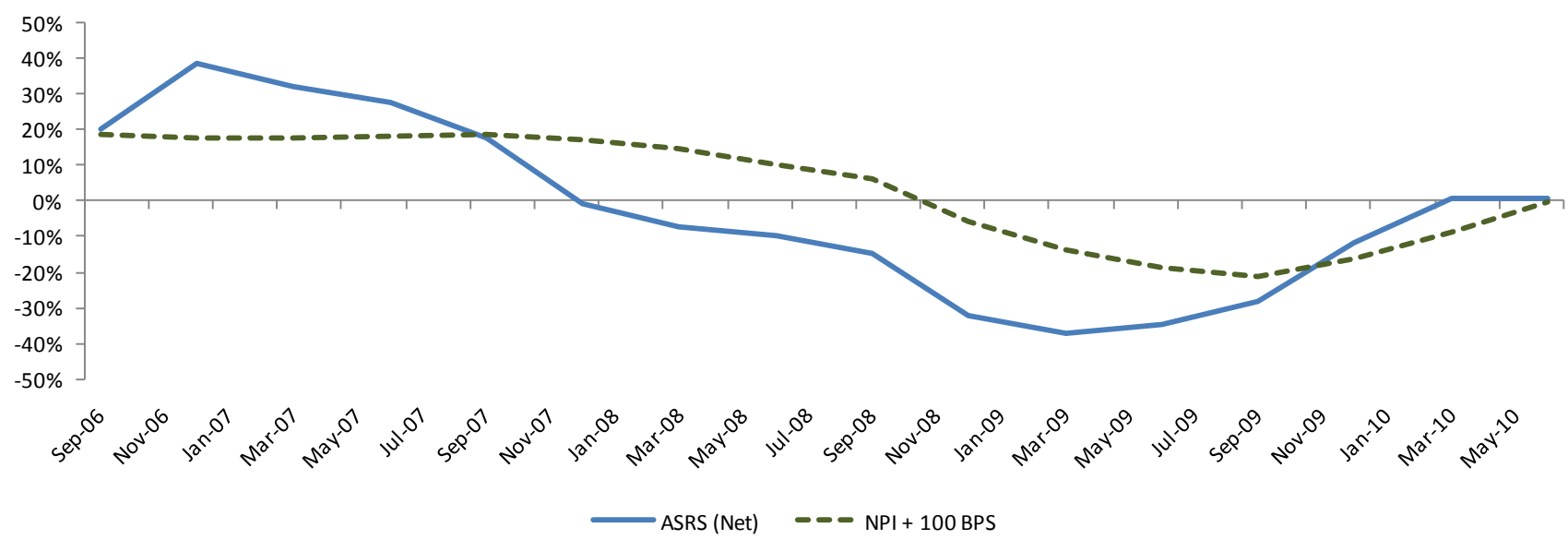
Invested Capital & Performance by Vintage Year



Real Estate Performance Analysis -Total Portfolio

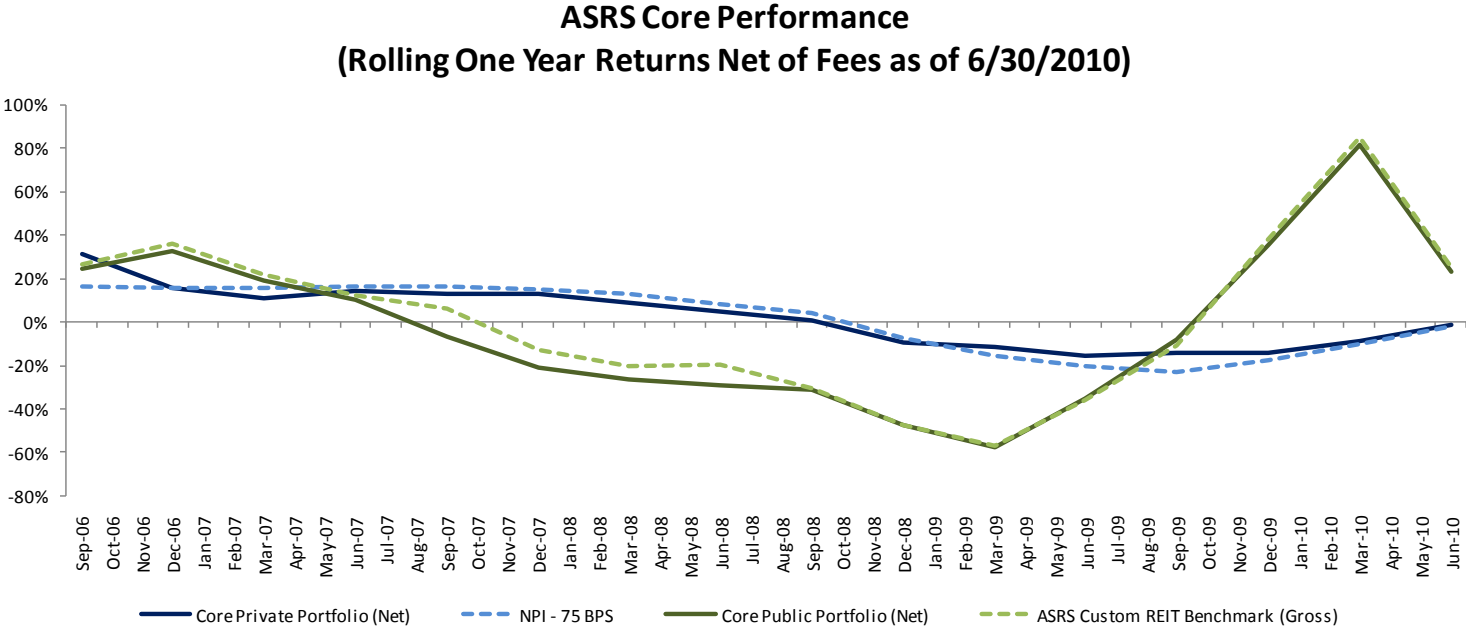
- The ASRS Total Portfolio Performance since inception is displayed below.
- ASRS Real Estate Performance is limited to a five-year period. As the Portfolio reaches its full funding target, performance is expected to improve relative to the benchmark.

ASRS Total Performance
(Rolling One Year Returns Net of Fees as of 6/30/2010)



Real Estate Performance Analysis - Core Portfolio

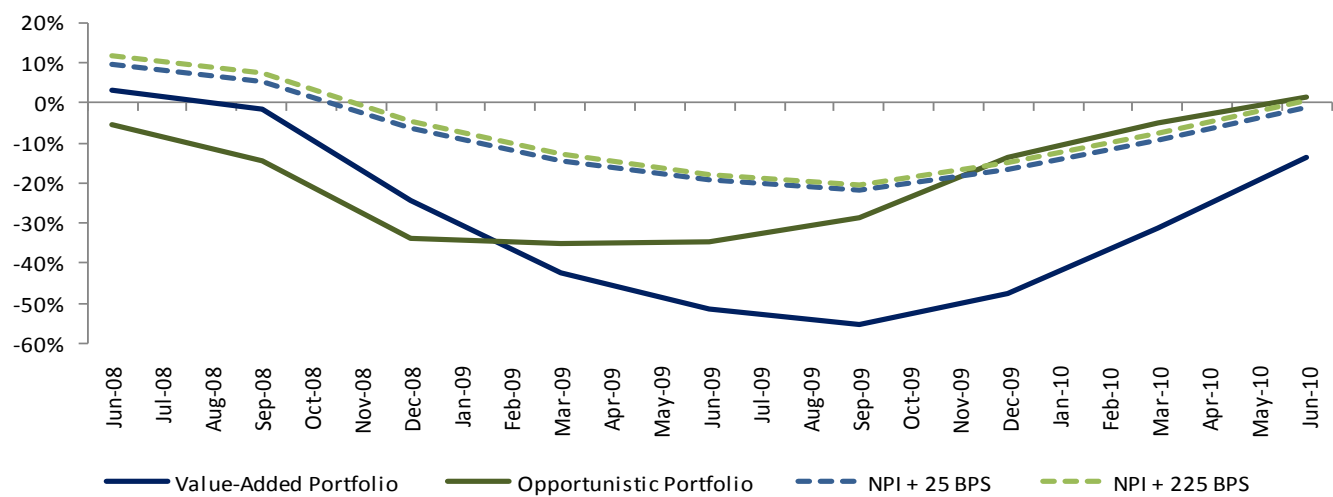
- Core investments represented 23% of the committed portfolio and 30% of the portfolio value as of 6/30/2010.
- The performance of the Core Public Portfolio is measured against a Custom REIT Benchmark, whereas the Core Private Portfolio is measured against the NPI – 75 basis points.



Real Estate Performance Analysis - Non-Core Portfolio

- Non-Core investments represented 77% of the committed portfolio and 70% of the portfolio value as of 6/30/2010.
- Performance is improving. Relative to its stated objective, the ASRS Non-Core performance was severely impacted over the market downturn due to higher levels of leverage and strategy risk inherent in the investments made during this period.

ASRS Non-Core Performance
(Rolling One Year Returns Net of Fees as of 6/30/2010)



Real Estate Performance Analysis – Manager Projections

- The chart below displays the original IRR targets and the revised IRR projections reported by the ASRS managers aggregated by style sector.
- Return projections reflect a combination of investments made both before and after the market correction.

	Original Commitment Amount	2Q 2010 Funded Amount	2Q 2010 Market Value	2Q 2010 Reported Net IRR	Original Target IRR		Projected IRR as of June 30, 2010	
					Gross	Net	Gross	Net
Core Private Portfolio	\$ 241	\$ 158	\$ 149	0.8%	7.2%	5.7%	6.7%	5.8%
Core Public Portfolio	\$ 127	\$ 128	\$ 104	-6.0%	10.0%	10.0%	10.0%	10.0%
Value-Added Portfolio	\$ 261	\$ 160	\$ 93	-27.6%	12.8%	10.5%	8.9%	6.9%
Opportunistic Portfolio	\$ 999	\$ 644	\$ 473	-10.8%	21.8%	17.5%	15.0%	11.7%
ASRS Real Estate Portfolio	\$ 1,628	\$ 1,091	\$ 820	-10.4%	15.3%	12.3%	10.9%	8.6%

Real Estate Portfolio Recent and Current Activities

- The ASRS Real Estate Committee (REC) approved two Core recommendations in FY 2010:
 - Private: \$50m follow-on commitment to CIM Fund VI (2010)
 - Public: Transition of LaSalle Global REIT to Forum Public Securities (2010)

- To date in FY 2011, the REC approved two Non-Core investments:
 - Opportunistic: \$55m commitment to Harrison Street Fund III
\$50m commitment to Waterton Residential Venture XI.

- Capital projections show that ASRS will have between \$400 and \$600 million to commit to real estate through FY 2013 in order to maintain its 6% (+/- 2%) funding objective.

- ASRS REC is implementing a distressed debt strategy

Appendix A: Real Estate Portfolio Roster

Real Estate Portfolio Roster

	Original Commitment Amount
Core Portfolio	
Core Private Portfolio	
AEW Core Property Trust	\$ 150,000,000
CIM Urban REIT	\$ 75,000,000
Hines US Core Office Fund LP	\$ 16,000,000
Total Core Private Portfolio	\$ 241,000,000
Core Public Portfolio	
EII Global REIT	\$ 72,214,717
Forum Global REIT	\$ 55,255,022
Total Core Public Portfolio	\$ 127,469,739
Total Core Portfolio	\$ 368,469,739

Non-Core Portfolio	
Value Added Portfolio	
AEW Value Investors II, LP	\$ 50,000,000
TRECAP Commercial Realty Partners III	\$ 50,000,000
CB Richard Ellis Strategic Partners Value V	\$ 50,000,000
Heitman Value Partners II, L.P.	\$ 50,000,000
PRISA II	\$ 61,200,000
Total Value Added Portfolio	\$ 261,200,000

	Original Commitment Amount
Opportunistic Portfolio	
AIG Asian Real Estate Partners II, LP	\$ 50,000,000
Blackstone Fund VI	\$ 45,000,000
Carlyle V	\$ 50,000,000
CB Richard Ellis Strategic Partners Opportunity V	\$ 50,000,000
CIM Fund III, LP	\$ 50,000,000
Colony VIII	\$ 50,000,000
Dune Real Estate Fund I	\$ 50,000,000
Dune Real Estate Fund II	\$ 50,000,000
Five Arrows Realty Securities IV, LP	\$ 75,000,000
Five Arrows Realty Securities V, LP	\$ 50,000,000
Five Mile Capital Partners II	\$ 50,000,000
Lone Star Fund VI (U.S.), L.P.	\$ 75,000,000
Lone Star RE Fund	\$ 25,000,000
Prudential Latin America Residential III	\$ 50,000,000
Prudential Latin America Retail Fund	\$ 60,000,000
RREEF Global Opportunities Fund II	\$ 50,000,000
Tishman Speyer Real Estate Venture VI	\$ 24,685,050
Tishman Speyer Real Estate Venture VII	\$ 50,000,000
Westbrook Real Estate Fund VII, L.P.	\$ 44,000,000
Westbrook Real Estate Fund VIII, L.P.	\$ 50,000,000
Total Opportunistic Portfolio	\$ 998,685,050
Total Non Core Portfolio	\$ 1,259,885,050

Total ASRS Portfolio	\$ 1,628,354,789
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